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RETAIL BEEF PRICE SPECIALS

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RETAIL BEEF PRICE SPECIALS ^{1/}

In a cooperative project with 25 retail food chains, the Economic Research Service is collecting and studying retail meat prices. Each week, these firms report regular and special prices for all cuts of meat. The following is a brief description of the patterns of beef specializing observed in this nationwide sample of chain stores. A special is here taken to mean the price reduction for the week's regular price.

Frequency and Depth of Price Specials

While nearly all beef cuts appeared on special during the 1962 to-mid-1964 period observed, the description here is limited to 7 important cuts: Porterhouse, sirloin, and boneless top round steaks; rib, chuck blade, and boneless rump roasts; and ground beef. ^{2/} All of these cuts were specialized frequently. Ground beef appeared on special most often, about 46 percent of the weeks in the reporting stores in 1964. Porterhouse steak was least frequently specialized, about 17 percent of the weeks in the reporting stores. Chuck roast was also a favorite item for specials, showing up in about 34 percent of the weeks. The other 4 cuts were specialized in 20-25 percent of the weeks.

In general, the higher the regular price of a cut, the greater the special both in percentage terms and cents per pound. Chuck roast was the exception--in 1964 chuck specials averaged about 33 percent of the regular price. Porterhouse steak regularly sold for about \$1.20 per retail pound, and porterhouse specials averaged about 30 cents. Ground beef usually sold below 50 cents per pound in the 1962-64 period, and specials ran about 10 cents. Specials on sirloin and round steaks and chuck and rump roast were in the 20-cent range in 1964. Rib roast special prices

averaged 15 cents below regular prices in 1964, a smaller average than expected since this cut usually sells for over 80 cents.

When retail beef prices decline, specials tend to become more frequent but very little larger (table 9). During periods of falling retail prices, specials are not significantly larger in cents per pound than when retail beef prices are steady or rising. They are, however, slightly larger in percentage terms. For example, in 1962 retail beef prices were steady or increasing nearly all the time. In contrast, in 1964, they decreased from January through June. In 1962, the index of frequency of specializing for all beef was 17. By 1964, this index had increased 10 points--more than 60 percent--from 17 to 27. The average price special was only 1 cent per pound greater in 1964 than in 1962, an increase of about 5 percent--from 18 cents to 19 cents. Although the frequency index reflects the direction and intensity of price movements (table 9, column 1 and 2), the index of price reduction shows no definite short-term-trend at all from 1962 to 1964--despite short-term up and down retail price movements. This index may be responding only to the general downward price trend of the period, rather than to the several intermediate movements.

Of the 7 cuts observed here, the cuts most often specialized were the cheaper, more popular ones (table 10). The frequency of specials increased more for these cuts than for other cuts between 1962 and 1964. But the size of their specials increased less than that of the more expensive cuts. For chuck roast, specials were actually smaller in 1964 than in 1962. High-priced cuts--like porterhouse steak and rump roast--were least frequently specialized and the frequency of specials increased less for

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^{2/} All 1964 figures refer to averages from January to August.

Table 9.--Retail beef price specials: Indexes of frequency and price reduction, 1962-64

| Direction of retail price movement | Period | Indexes of specializing | |
|------------------------------------|-----------------------|-------------------------|-----------------|
| | | Frequency <u>1/</u> | Average |
| | | | price reduction |
| | | Percent | Cents |
| Stable | Jan. - July 1962 | 18 | 17 |
| Rising | Aug. - Dec. 1962 | 16 | 19 |
| Falling | Jan. - June 1963 | 24 | 19 |
| Rising | July - Sept. 1963 | 21 | 20 |
| Falling | Oct. 1963 - June 1964 | 26 | 19 |

1/ Total number of specials for the 7 cuts divided by the sum of the store-weeks for each cut.

Table 10.--Retail beef price specials: Indexes of frequency and price reduction, 1962-64 by cuts

| Cut | Frequency index | | | Price reduction index | | |
|----------------------------|-----------------|---------|-------------------|-----------------------|-------|----------|
| | 1962 | 1964 | Increase | 1962 | 1964 | Increase |
| | Percent | Percent | Percentage Points | Cents | Cents | Cents |
| <u>Higher priced cuts:</u> | | | | | | |
| Porterhouse steak | 11 | 17 | 6 | 27 | 31 | 4 |
| Boneless rump roast | 15 | 24 | 9 | 17 | 19 | 2 |
| <u>Lower priced cuts:</u> | | | | | | |
| Ground beef | 33 | 46 | 13 | 10 | 11 | 1 |
| Chuck blade roast | 22 | 34 | 12 | 18 | 17 | -1 |

these cuts than for other cuts between 1962 and 1964. However, the size of their specials increased more.

Choice grade beef carcass. Retailers who buy beef only in carcass form must sell 24 pounds of other beef cuts and products for every pound of top round steak sold. Normal price relationships tend to be designed with these movement relationships in mind.

Specials and Estimates of Beef Prices

Apart from the obvious impact on price relationships among cuts, specials drastically change the quantity patterns of sales among cuts as well. Top round steak makes up about 4 percent of a

Depending on the depth of the special, the tone of the market, and on the behavior of competitors, a special will increase retail sales of beef cut by

varying amounts. In many instances, the movement of cuts on special makes up most--in some cases nearly all--of the beef sales for the week in a given store. When sales of a single cut account for a large part of a store's total beef sales, the average price of beef in that store approaches the price of the cut rather than the average retail price of carcass beef.

ERS published prices of Choice grade beef are average prices that assume that all cuts of a carcass move through retail stores together. Special prices are included when they appear, but are weighted by the importance of each cut in a Choice grade beef carcass. The weight for any cut may understate the importance of that cut in any given store's sales (that week) if a special has sharply increased the sales of that cut. As a result, average beef prices published by ERS accurately represent only the beef that moves to retailers in carcass form. The greater the proportion of beef sold on special by any firm, the less representative these average prices are of that firm's beef sales.

The proportion of Choice grade beef sold each week at special prices in the United States is not known. Efforts are currently underway to obtain sufficient information from food retailers to estimate the size and impact of price specials.

Beef was specialied more frequently in the first 6 months of 1964 when prices were falling than in 1962 when prices were relatively high and rising. But, competition among specials probably prevented the proportion of beef sold on specials from increasing as much as the change in the index of frequency would indicate. Even so, this evidence points to a substantial increase in the movement of beef under special prices in the more recent period, an increase probably great enough to decrease the proportion of the beef movements represented by ERS average prices. ERS is attempting to obtain data from retailers that will enable it to make estimates of this movement, its impact on average prices, and ways it can be reflected in the average price of Choice grade beef.

